

Government of the District of Columbia
Department of Insurance and Securities Regulation



Lawrence H. Mirel
Commissioner

April 15, 2003

The Honorable Robert L. Ehrlich, Jr.
Governor
State of Maryland
State House
Annapolis, MD

Re: Pending CareFirst Legislation, H.B. 1179

Dear Governor Ehrlich:

I am writing to express my concern about the potential impact of the recently enacted House Bill 1179 on the future viability of Group Health Medical Services, Inc. (GHMSI), the region's largest health insurer. GHMSI is a District of Columbia domestic health insurer, although it is part of the CareFirst holding company system. CareFirst, as you know, has its headquarters in Maryland. GHMSI markets its products throughout the State of Maryland, the District of Columbia, and the northern part of the Commonwealth of Virginia.

House Bill 1179 as it was enacted could result in the demise of GHMSI, which today is a healthy, solvent and well run health insurer. If GHMSI were to go out of business, thousands of currently insured District, Maryland and Virginia residents could find themselves uninsured and uninsurable. This would be a major blow to the region's health insurance system. For that reason I hope you will veto this legislation.

House Bill 1179 appears to have two major purposes, both of which are problematic. The first is to remove and replace the current board of directors of CareFirst, Inc. and replace them with persons selected by a commission appointed by yourself, the House speaker and the Senate president. This is a clear attempt to *politicize* the operation of a private, non-profit corporation whose current members were chosen in accordance with the corporation's bylaws and who have legal terms of office. Because of this effort to remove the duly elected members of the CareFirst board, the Blue Cross/Blue Shield Association has threatened to revoke the "Blue Cross" designation from CareFirst and from its affiliated companies, including GHMSI. The loss of that "brand" would have a devastating effect on the company. In addition, we are concerned that the Bill would give Maryland political leaders control of the CareFirst holding company, whose most valuable asset is GHMSI, a District of Columbia corporation regulated by my department.

The second apparent goal of the legislation is to require a change in the mission of CareFirst or, as stated by the bill's supporters, to require CareFirst to return to its original non-profit mission. Although it is not entirely clear what this means, it appears at the least that the legislature wants to force CareFirst and its affiliates, including GHMSI, to insure persons that competing insurers will not insure, and to charge less for insurance than its competitors charge. In today's highly competitive health insurance market, that would quickly put CareFirst and GHMSI out of business.

We know directly how difficult it is for non-profit health plans to survive in competition with "for-profit" competitors. Last year the District's other major non-profit insurer, the George Washington University Health Plan (GWUHP), shut its doors for good. GWUHP was a reasonably effective insurance company but it was losing market share. Although it was solvent it could see that it was only a matter of time before it would have to fold. It tried for several years to find a buyer, but no one would make an offer because the Plan was not profitable. When it closed it left hundreds of former subscribers—especially those who were older or who had developed medical problems while in the Plan—uninsured and uninsurable.

So far GHMSI has been able to hold its own. It is well managed, takes in more than it pays out in claims, and has sufficient reserves to pay claims for a number of years. The very health of the company is what attracted a major for-profit health insurer, WellPoint, to offer \$1.3 billion for it—money that would have been available for public purposes in the four jurisdictions where CareFirst operates (the three mentioned above plus Delaware) had the deal been approved.

We know that the Maryland Insurance Administration recently concluded a review of the proposed conversion and sale of CareFirst to WellPoint and determined that the transaction should not be allowed. That, of course, is within the authority of the Maryland Insurance Commissioner. Although we began a similar review process here in the District of Columbia, we have discontinued that effort in light of the action of Commissioner Larsen.

That decision, however, does not justify a wholesale takeover by the State of Maryland of the CareFirst operations, including the District's GHMSI. The CareFirst holding company was created by agreement among the insurance commissioners of the three jurisdictions whose blue cross plans were placed in the holding company—the District of Columbia, Maryland and Delaware. That agreement cannot be unilaterally reordered by one party to the agreement. The District of Columbia, to protect its citizens and the health insurance company that serves so many of them, will fight this action of the Maryland legislature by all legal means. We will not let the legislators of a neighboring jurisdiction impose conditions on the operations and governance of our blue cross plan, conditions that are very likely to render GHMSI uncompetitive and therefore not viable.

I want to make clear that I am no apologist for CareFirst or for our current system of health insurance. The system is badly in need of overhauling. But forcing one company to behave differently than the others in a highly competitive environment is to doom that company to oblivion. Please do what you can to prevent this highly unusual, unjustified and harmful legislation to become law. If it does go into effect I can see only dire consequences for the health insurance systems, and for the subscribers of CareFirst, in both of our jurisdictions and in Delaware and Virginia as well.

Sincerely yours,

Lawrence H. Mirel
Commissioner